Forward Looking Statements

This presentation contains forward-looking statements based on current expectations, and neither Pinnacle West Capital Corporation (“Pinnacle West”) nor Arizona Public Service Company (“APS”) assumes any obligation to update these statements or make any further statements on any of these issues, except as required by applicable law. These forward-looking statements are often identified by words such as “estimate,” “predict,” “hope,” “may,” “believe,” “anticipate,” “plan,” “expect,” “require,” “intend,” “assume” and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from results or outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the year ended December 31, 2006, these factors include, but are not limited to: state and federal regulatory and legislative decisions and actions, particularly those affecting our rates and our recovery of fuel and purchased power costs; the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona and decisions impacting wholesale competition; the outcome of regulatory, legislative and judicial proceedings, both current and future, relating to the restructuring and environmental matters (including those relating to climate change); market prices for electricity and natural gas; power plant performance and outages; transmission outages and constraints; weather variations affecting local and regional customer energy usage; customer growth and energy usage; regional economic and market conditions, including the results of litigation and other proceedings resulting from the California energy situation, volatile fuel and purchased power costs and the completion of generation and transmission construction in the region, which could affect customer growth and the cost of power supplies; the cost of debt and equity capital and access to capital markets; current credit ratings remaining in effect for any given period of time; our ability to compete successfully outside traditional regulated markets (including the wholesale market); the performance of our marketing and trading activities due to volatile market liquidity and any deteriorating counterparty credit and the use of derivative contracts in our business (including the interpretation of the subjective and complex accounting rules related to these contracts); changes in accounting principles generally accepted in the United States of America and the interpretation of those principles; the performance of the stock market and the changing interest rate environment, which affect the value of our nuclear decommissioning trust, pension, and other postretirement benefit plan assets, the amount of required contributions to Pinnacle West’s pension plan and contributions to APS’ nuclear decommissioning trust funds, as well as the reported costs of providing pension and other postretirement benefits; technological developments in the electric industry; the strength of the real estate market in SunCor’s market areas, which include Arizona, Idaho, New Mexico and Utah; and other uncertainties, all of which are difficult to predict and many of which are beyond the control of Pinnacle West and APS.
Create Shareholder Value

- Customer service excellence
- Solid operating performance
- Cost management focus
- Constructive regulatory outcomes
- Real estate asset optimization
- Shareholder value
Regulatory Initiatives

- Promote interactive and cooperative regulatory process
- Respond to ACC “growth should pay for itself”
- Address resource planning
- Expand renewables and promote energy efficiency programs
- Address earnings attrition
Who Should Pay for Growth?

Fees for Service
“Arizona Corporation Commission regulators are exploring ways to require property owners to pay for services traditionally provided for free, with the costs spread among ratepayers. These include potential fees for new electric and natural gas customers.”

“This freebie was costing ratepayers,” Commissioner Mayes said. “We are going to require growth to pay for itself. Right now, it is not.”
APS Proposed Amendments to Line Extension Schedule

- ACC 2007 rate order required APS to file amendments to eliminate allowances for new service
- Shift burden of rising distribution infrastructure costs away from current customer base to growth
APS Proposed Amendments to Line Extension Schedule

- APS proposed amendments
  - Collect line extension costs on current basis
    - $3,500 - $5,000 per new meter set
  - Account for amounts collected as revenue
  - Grandfather existing line extension agreements
FERC Transmission Rate Case

- $37 million wholesale rate increase requested
  - $30 million applicable to APS retail rates
- Proposed formula-based rates with annual adjustment
- Rate base: $847 million
- Capital structure: 47% debt, 53% equity
- ROE requested: 11.3%
- 2006 test year
FERC Rate Case Time Line

- FERC request filed July 10, 2007
- FERC rates effective March 1, 2008 (subject to refund)
- APS retail adjustor
  - Application filed December 31, 2007
  - Rates requested effective March 1, 2008
  - ACC Staff recommendation filed January 28, 2008
Fundamental Market Growth

**Arizona vs U.S. Population Growth**

- **2003**: Arizona 2%, U.S. 1%
- **2004**: Arizona 3%, U.S. 2%
- **2005**: Arizona 4%, U.S. 3%
- **2006**: Arizona 4%, U.S. 3%
- **2007**: Arizona 4%, U.S. 3%

**Metro Phoenix Single-Family Building Permits**

- **2002**: 35,000
- **2003**: 40,000
- **2004**: 50,000
- **2005**: 45,000
- **2006**: 30,000
- **2007**: Estimate 25,000
APS Resource Requirements for Native Load

2006 - 2010 Average Annual Growth 3.5%

MW

Peak Load & Reserves

Long-term Resources

Market Purchases

Peaking Shortfall

Projected
APS 2\textsuperscript{nd} in Customer Satisfaction Among Western Electric IOU’s

2007 J.D. Power Customer Satisfaction Surveys
Top-Tier Coal Performance

2007 Highlights

- Record fleet capacity factors for fourth straight year
- Cholla
  - Set new production record 5.1 million MWh
  - Capacity factor 90%
- Four Corners
  - Capacity factor 86%
  - 14.6 million MWh generated

* Latest available
Nuclear Challenges & Opportunities

- Top U.S. power producer past 15 years
- Unit 1 vibration issue resolved in 2006
- Goal to achieve site capacity factor around 90%
- Executive management changes in early 2007
  - Randy Edington, chief nuclear officer
- Performance improvement plan underway
- Strengthening regulatory relationships

**Capacity Factors**

<table>
<thead>
<tr>
<th>Unit</th>
<th>'05</th>
<th>'06</th>
<th>'07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit 1</td>
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<tr>
<td>Unit 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit 3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Yellow bars: Capacity Factor
- Orange bars: Capacity Factor Loss Due to Vibration Issue

- '05: 75% (Unit 1), 50% (Unit 2), 75% (Unit 3)
- '06: 75% (Unit 1), 50% (Unit 2), 75% (Unit 3)
- '07: 100% (Unit 1), 100% (Unit 2), 100% (Unit 3)
SunCor Overview

- Commercial and residential real estate developer in Western U.S.
- Total assets = $673 million
- Equity = $289 million
- Diverse geographic and business mix
  - 6 master-planned communities
  - 3 major commercial projects
  - 500,000 square feet mixed-use urban infill
  - 450,000 square feet industrial project

As of December 31, 2007 (unaudited)
SunCor Gross Margin Contribution by Business Line

* Includes discontinued operations
Consolidated EPS Summary

4th Quarter

Year

Per Share

2007 2006

Per Share

2007 2006
Consolidated EPS
Summary of Major Variances

4th Quarter 2007 vs 4th Quarter 2006

- $ 0.05 Retail sales growth
- $ 0.03 Rate increase impacts
- $ 0.03 Lower other taxes
- $(0.17) Higher O&M costs
- $(0.04) 2006 income tax credits related to prior years
- $(0.03) Higher depreciation
- $(0.03) SunCor
- $ 0.03 Rate increase impacts
- $ 0.01 Other items - net
Consolidated EPS
Summary of Major Variances

Year 2007 vs Year 2006

- $0.28  Retail sales growth
- $0.23  Weather effects
- $0.13  Rate increase impacts
- $0.05  Marketing & trading
- $(0.37)  SunCor
- $(0.26)  Higher O&M costs
- $(0.17)  Higher depreciation and interest
- $(0.08)  Regulatory disallowance
- $(0.03)  Other items - net
2008 Earnings Guidance
As of January 30, 2008

- Consolidated earnings expected to be within reasonable range around $2.50 per share
  - APS 2008 earnings
    - Basically flat compared with 2007 excluding abnormal weather and prior years’ tax adjustments
    - Assumes new transmission rates effective March 1, 2008
    - Does not include potential effects of line extension amendments
  - SunCor earnings approximately $20 million
Cost Review
Staff Reduction

- Targeted reduction – 300 positions
- Targeted completion – end of first quarter 2008
- $7 million estimated pretax annual O&M savings
Cost Review
Non-Staff O&M Reductions

- Process efficiencies and reduction of projects throughout organization
- Reductions in medical expenses, communications and advertising costs
- $7 million estimated pretax annual savings
Cost Review
Capital Expenditure Reductions

- More than $200 million over next five years
  - $130 million  Slower projected customer growth
  - $ 60 million  Improved planning, logistics and scheduling
  - $ 20 million  Deferral of system upgrades and projects not affecting reliability
Significant Capital Investment to Support Growth

Excluding SunCor

Projected

$ Millions

2005 2006 2007 2008 2009 2010

APS Distribution
APS Transmission
APS Generation
Other
Strong Equity Ratios to Support Growth

**Consolidated**

- 2002: 49%
- 2003: 52%
- 2004: 50%
- 2005: 49%
- 2006: 60%
- 2007*: 52%

**APS**

- 2002: 52%
- 2003: 49%
- 2004: 50%
- 2005: 52%
- 2006: 52%
- 2007*: 52%

* Unaudited
Excluding off-balance sheet adjustments
U.S. Electric Utilities Dividend Yields

Pinnacle West Annual Dividend
$2.10 Per Share

As of December 31, 2007

Pinnacle West
PNW 5.0%

Electric Utilities
Industry Average 3.6%
Summary

- Customer service excellence
- Solid operating performance
- Cost management focus
- Constructive regulatory outcomes
- Real estate asset optimization
- Shareholder value
Appendix
# Current Credit Ratings Profile

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P</th>
<th>Moody’s</th>
<th>Fitch</th>
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<tbody>
<tr>
<td><strong>Pinnacle West (Parent)</strong></td>
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</tr>
<tr>
<td>Senior Unsecured Debt*</td>
<td>BB+</td>
<td>Baa3</td>
<td>N/A</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>A3</td>
<td>P3</td>
<td>F3</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Negative</td>
<td>Negative</td>
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<td></td>
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<tr>
<td><strong>APS</strong></td>
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<td>Senior Unsecured Debt</td>
<td>BBB-</td>
<td>Baa2</td>
<td>BBB</td>
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<td>Commercial Paper</td>
<td>A3</td>
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<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Negative</td>
<td>Stable</td>
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</tbody>
</table>
Liquidity Resources

**APS**
- $400 million revolver through December 2010
- $500 million revolver through September 2011
- Next long-term debt maturity 2011
- As of December 31, 2007
  - Short-term borrowing approximately $200 million
  - Cash and invested position approximately $50 million

**Pinnacle West (parent)**
- $300 million revolver through December 2010
- Next long-term debt maturity 2011
- Short-term borrowing approximately $100 million as of December 31, 2007
<table>
<thead>
<tr>
<th>Commissioner</th>
<th>Party Affiliation</th>
<th>Commissioner Since</th>
<th>Term Expires</th>
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</thead>
</table>
### APS Retail Rate Case
#### Summary of Request and Final Order

<table>
<thead>
<tr>
<th>Description</th>
<th>APS Rate Request</th>
<th>ACC Final 2007 Order</th>
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</thead>
<tbody>
<tr>
<td>Annual base rate increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel-related</td>
<td>$315M</td>
<td>$315M</td>
</tr>
<tr>
<td>Non-fuel</td>
<td>$120M</td>
<td>$7M</td>
</tr>
<tr>
<td>Total</td>
<td>$435M</td>
<td>$322M</td>
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<tr>
<td>Percent increase</td>
<td>20.4%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Base fuel rate per kWh</td>
<td>3.25¢</td>
<td>3.25¢</td>
</tr>
<tr>
<td>Return on equity</td>
<td>11.5%</td>
<td>10.75%</td>
</tr>
<tr>
<td>Capital structure</td>
<td></td>
<td></td>
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<tr>
<td>Long-term debt</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Common equity</td>
<td>55%</td>
<td>55%</td>
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<tr>
<td>Rate base</td>
<td>$4.46B</td>
<td>$4.40B</td>
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</tbody>
</table>
2007 ACC Rate Case Decision
Key Components

- Updated base fuel rate to 2007 levels
- Improved timely recovery of fuel and purchased power costs
- Validated APS’ fuel hedging and procurement programs
- Reflected APS’ requested capital structure
- Implemented environmental improvement surcharge
- Began addressing who should pay for growth and challenges of regulatory lag
Power Supply Adjustor Revisions

- Effective July 1, 2007
- Annual adjustor components
  - Forward-looking estimate of fuel and purchased power costs
  - True up to reconcile prior-year actual and estimated costs
- 4 mill/kWh annual cap on PSA rate changes
  - Previously 4 mill/kWh lifetime cap
# PSA Annual Adjustor and Surcharges

<table>
<thead>
<tr>
<th>Description</th>
<th>Mills/kWh</th>
<th>Duration</th>
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</thead>
<tbody>
<tr>
<td>2007 annual adjustor</td>
<td>4.0</td>
<td>2/1/07 – mid-2008*</td>
</tr>
<tr>
<td>Palo Verde 2005 deferral surcharge</td>
<td>1.2</td>
<td>7/1/07 – 6/30/08</td>
</tr>
<tr>
<td>2008 annual adjustor</td>
<td>4.0</td>
<td>2/1/08 – 1/31/09</td>
</tr>
</tbody>
</table>

* Extended to collect $46 million 2007 deferrals related to mid-2007 implementation of new base rates
Economic Growth Underpins Retail Sales Growth

Annual Growth

- Arizona Population
- APS Customers
- APS Retail Sales*

* Weather normalized
APS 2007 Retail Customer and Sales Mix

1.1 Million Customers

- Residential: 89%
- Commercial: 11%

29,172 GWh Sales

- Residential: 47%
- Commercial: 44%
- Industrial: 9%
2007 Energy Fuel Mix

**Consolidated**
- Coal: 29%
- Nuclear: 17%
- Gas: 15%
- Purchased Power: 39%

**Native Load**
- Coal: 40%
- Nuclear: 24%
- Gas: 19%
- Purchased Power: 17%
New Gas Resources

- 96 MW gas peaking asset
  - Yuma CTs
  - Under construction
  - In service summer 2008

- 560 MW gas purchase power agreement
  - 10-year term beginning June 2010
  - Summer product, expanding to 6 months as needed
Renewable Resource Requirements

- Arizona Renewable Energy Standard (RES)
- Sets minimum renewable energy amounts
  - 5% of energy for retail sales by 2015
  - 15% of energy for retail sales by 2025
- Includes distributed energy component
  - 30% of total by 2011
Potential Inter-Regional Transmission

- Expand resources to meet rapid load growth
- Enhance resource portfolio reliability and economics
- Increase system import capability
- Improve fuel diversity
- Access renewable wind and clean coal resources
WECC Available Transmission Capability

Summer 2007 estimates (MW)
SunCor Project Diversity by Type

### Legacy Properties

- **2002**: $300 Millions
- **2003**: $200 Millions
- **2004**: $100 Millions
- **2005**: $100 Millions
- **2006**: $300 Millions
- **2007**: $100 Millions

### Post-1990 Properties

- **2002**: $100 Millions
- **2003**: $200 Millions
- **2004**: $300 Millions
- **2005**: $400 Millions
- **2006**: $500 Millions
- **2007**: $600 Millions

**Legend**
- Master Planned Owned
- Master Planned Ventures with Landowners
- Commercial & Other
## SunCor Active Projects

<table>
<thead>
<tr>
<th>Master-Planned Communities</th>
<th>Year Acquired</th>
<th>Original Acreage</th>
<th>12/31/07 Acreage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm Valley (Phoenix, AZ)</td>
<td>1987</td>
<td>11,300</td>
<td>2,500</td>
</tr>
<tr>
<td>Rancho Viejo Phase I (Santa Fe, NM)*</td>
<td>1996</td>
<td>2,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Coral Canyon (St. George, UT)*</td>
<td>1998</td>
<td>2,500</td>
<td>750</td>
</tr>
<tr>
<td>StoneRidge (Northern AZ)*</td>
<td>2001</td>
<td>1,840</td>
<td>1,100</td>
</tr>
<tr>
<td>Avimor (Boise, ID)*</td>
<td>2003</td>
<td>12,500</td>
<td>12,500</td>
</tr>
<tr>
<td>Prescott Lakes (Northern AZ)*</td>
<td>2004</td>
<td>175</td>
<td>175</td>
</tr>
</tbody>
</table>

| Major Commercial Properties                  |              |                 |                  |
| Talavi                                        | 1987         | 140             | 7                |
| Palm Valley Office Park Phase 3               | 1987         | 4               | 4                |
| Hayden Ferry Lakeside Office & Condos         | 2000         | 17              | 15               |

* Venture with landowner
Social Responsibility Awards

- Innovest’s highest rating (AAA) and ranked #2 electric utility
- Dow Jones Sustainability Index
- Global 100 Most Sustainable Corporations in World by Corporate Knights
- Storebrand’s Social Responsibility Index “best in class” distinction
- EPA Climate Protection Award